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UNITED CIGAR-WHELAN

STORES CORPORATION

Annual Report · 1955

★ United Cigar-Whelan Stores Corporation

EXECUTIVE AND GENERAL OFFICES: *82 39th Street, Brooklyn 32, N. Y.*

BOARD OF DIRECTORS

David G. Baird, New York, N. Y.
Leo Bertisch, New York, N. Y.
Frank H. Blair, New York, N. Y.
George P. Frenkel, New York, N. Y.
Charles Green, New York, N. Y.
J. Raymond McGovern, New Rochelle, N. Y.
William L. Pfeiffer, New York, N. Y.
Nat Polinsky, Duluth, Minn.
Ted M. Segal, New York, N. Y.
Harry T. Silverman, New York, N. Y.
Milton Soref, Milwaukee, Wis.

OFFICERS

Charles Green	*Chairman of the Board*
Harry T. Silverman	*Chairman of Executive Committee*
Leo Bertisch	*President*
Benjamin S. Thaw	*Executive Vice President*
Paul Olsen	*Vice President, Treasurer and Comptroller*
Alvah K. Parent	*Vice President and Secretary*
Harry M. Chichester	*Vice President*
Herman H. Goldstein	*Vice President*
Frank Kohn	*Vice President*
Charles J. Sewall	*Assistant Secretary and Assistant Treasurer*

COUNSEL

Aranow, Brodsky, Bohlinger, Einhorn & Dann, New York, N. Y.

AUDITORS

S. D. Leidesdorf & Co., New York, N. Y.

REGISTRAR

Convertible Preferred Stock and Common Stock
The New York Trust Company, New York, N. Y.

TRANSFER AGENT

Convertible Preferred Stock and Common Stock
The Marine Midland Trust Company, New York, N. Y.

Annual Report 1955

March 27, 1956

TO THE STOCKHOLDERS OF

UNITED CIGAR-WHELAN STORES CORPORATION:

We present herewith the Annual Report of your Corporation for the year 1955, including consolidated financial statements of the Corporation and its subsidiaries at December 31, 1955 and a report of their operations for the year then ended, both having comparative figures for the year 1954, accompanied by the report of S. D. Leidesdorf & Co., Certified Public Accountants.

A comparison of some of the financial highlights is as follows:

	1955	*1954*
Sales and shipments to agents	$56,557,376	$58,718,077
Operating income before Federal taxes on income	1,159,757	904,876
Net income before Federal taxes on income . .	1,214,531	944,273
Provision for Federal taxes on income	674,000	455,000
Net income after Federal taxes on income . .	540,531	489,273
Earnings per share of Common Stock outstanding	23¢	20¢
Ratio of Current Assets to Current Liabilities . .	3.1 to 1	2.8 to 1

SALES AND EARNINGS

Earnings were improved despite a decline of 3.7% in sales and shipments to agents, due primarily to further closings of unprofitable units occasioned by high and unreasonable minimum rentals and percentages, as compared with other drug chains. Both operating income and net income, before provision for Federal income taxes, showed increases of approximately 29%.

A comparison of units in operation at the end of the last three years is as follows:

	1955	*1954*	*1953*
Drug and/or Liquor Stores . . .	152	166	174
Cigar and Combination Stores . . .	8	16	38
Agencies	610	627	697

Perhaps the most important factor affecting our operations in 1955, particularly within our primary marketing area, was the increase in operating costs

over which the Corporation had no control. These costs, chiefly labor, materials and services, again advanced substantially in 1955. Although retail activity reached unusually high levels in 1955, retail competition also approached an unprecedented high level, preventing us from making price adjustments sufficient to offset these higher operating costs. The fact that we did increase our net earnings in 1955 is a tribute to the efforts of executive, operating and sales personnel in improving our merchandising activities and increasing our gross margin of profit.

FINANCES

The financial position of your Corporation continues to be excellent. The ratio of current assets to current liabilities at December 31, 1955 was 3.1 to 1, compared with 2.8 to 1 at the end of December 1954.

Your Management deemed it expedient to prepay the entire balance of the long-term debt which amounted to $1,550,000, thereby eliminating future charges to profit and loss for annual interest payments of approximately $54,000.

The continued improvement in our buying and merchandising operations, resulting in an increase in inventory turnover, is reflected in the reduction of capital tied up in inventory by approximately $900,000. Some of the capital so released was used in the purchase of the Company's Preferred and Common Stock. During 1955 1200 shares of the Corporation's Preferred Stock were purchased for $89,916. These shares together with 960 shares previously held in the Treasury were retired, thereby reducing annual cash dividend requirements. Also during 1955 42,831 shares of the Corporation's Common Stock were purchased for its Treasury for $197,290.

DIVIDENDS

A Common Stock dividend of 17½¢ per share was declared on January 13, 1956 and paid on February 28, 1956 to stockholders of record at February 14, 1956. This compares with a dividend of 15¢ per share, declared in 1954 and paid on January 25, 1955. The regular dividend requirements of $3.50 per share were met on the Convertible Preferred Stock, the dividend for the fourth quarter of 1955 having been declared on January 13, 1956.

OFFER TO PURCHASE STOCK IN BAYUK CIGARS, INC.

In line with Management's program of enhancing earnings through the purchase of or merger with other businesses, your company advertised on November 25, 1955 for tenders of 250,000 shares of Common Stock of Bayuk Cigars, Inc. The offer was extended until January 12, 1956; however, an insufficient number of shares were offered and the company did not deem it advisable to accept these shares.

OUTLOOK FOR 1956

It is expected that retail activities and competition within our primary market areas will further expand in 1956. We expect to capture our share of this increased activity through further concerted efforts to improve our merchandising and service to customers.

The year 1955 was the first year in some time during which there were no interruptions in business because of strikes and, because of favorable relations with our employees, we do not anticipate any labor stoppage during 1956. Present indication is that the cost of goods, labor and services will continue to rise. As previously pointed out, we cannot pass along these increases to our customers; neither can we obtain any substantial reductions by further reducing services to our customers. However, we plan to open a number of new units, chiefly of the self-service variety. This type of store has proved very successful as compared to conventional drug stores. We also confidently expect 1956 to continue to show favorable results from our constant efforts to increase our gross margin of profit and to reduce our overhead expenses.

In addition to bending every effort toward expanding and improving our present type of operations in 1956, Management believes it should take advantage of the Corporation's financial position to otherwise expand earning possibilities. With this in view, the Board of Directors has appointed a Finance Committee to investigate and recommend the investment of surplus funds.

The Corporation will continue negotiating for the possible acquisition of other businesses of a profitable nature.

CONCLUSION

During 1955, Mr. B. A. Tompkins, a Director of the Corporation for a number of years, retired.

Management is appreciative of the support and cooperation of its officers and employees during the year just concluded. On behalf of the Board of Directors we wish to express our appreciation.

This report is submitted on behalf of the Board of Directors.

LEO BERTISCH
President

COMPARATIVE CONSOLIDATED BALANCE SHEET ★ AS AT DECEMBER 31, 1955 AND 1954

ASSETS

	1955	1954
CURRENT ASSETS:		
Cash	$ 4,663,150	$ 4,940,432
Investment, at cost (market quotation—$184,300)	160,053	—
Accounts and notes receivable, and merchandise shipments to agents, less reserves—Note A	1,438,980	1,437,804
Inventories of merchandise and supplies, at cost or market whichever is lower	7,285,470	8,179,107
Prepaid insurance, taxes and rent	260,511	274,573
TOTAL CURRENT ASSETS	13,808,164	14,831,916
OTHER ASSETS—Note A:		
Merchandise shipments to agents	425,575	440,600
Notes and accounts receivable due after one year, etc.	222,315	226,308
	647,890	666,908
FIXED ASSETS, at cost or less:		
Furniture, fixtures and equipment (includes approximately $1,400,000 on which depreciation provided is equal to asset)	4,878,406	5,166,881
Less: Depreciation	3,250,675	3,240,683
	1,627,731	1,926,198
Improvements to leaseholds, less amortization	2,054,125	2,331,167
	3,681,856	4,257,365
DEFERRED CHARGES	216,600	259,413
	$18,354,510	$20,015,602

This statement is subject to the accompanying Notes to

LIABILITIES

	1955	1954
CURRENT LIABILITIES:		
Accounts payable	$ 2,406,935	$ 2,618,246
Dividends payable	—	330,462
Taxes accrued and withheld, other than Federal taxes on income	574,258	571,277
Accrued compensation and other liabilities	759,223	675,059
Provision for Federal taxes on income—Note B	661,131	519,955
Long-term debt—current maturities	—	500,000
TOTAL CURRENT LIABILITIES	4,401,547	5,214,999
LONG-TERM DEBT—3½% notes payable, less current maturities shown above	—	1,050,000
TOTAL LIABILITIES	4,401,547	6,264,999
CAPITAL STOCK AND SURPLUS—Note C:		
Capital Stock:		
Convertible Preferred Stock, par value $100.00 a share, $3.50 dividend cumulative: Authorized—50,000 shares Issued—18,840 shares (1954—21,000 shares)	1,884,000	2,100,000
Common Stock, par value 30¢ a share: Authorized—3,000,000 shares Issued—2,307,308 shares	692,192	692,192
Capital Surplus	5,949,580	5,896,900
Earned Surplus	6,536,475	6,046,909
	15,062,247	14,736,001
Less: Treasury stock, at cost	1,109,284	985,398
	13,952,963	13,750,603
LONG-TERM LEASES AND OTHER CONTINGENCIES—Note D		
	$18,354,510	$20,015,602

nancial Statements, which are made an integral part hereof.

COMPARATIVE CONSOLIDATED STATEMENT OF INCOME AND EARNED SURPLUS

United Cigar-Whelan Stores Corporation and Subsidiary Companies

★ **FOR THE YEARS ENDED DECEMBER 31, 1955 AND 1954**

	1955	1954
Net sales and shipments to agents—Note A	$56,557,376	$58,718,077
Other operating income:		
Income from display advertising, sundry commissions, etc.	1,320,668	1,381,073
Rental income	862,670	867,443
	58,740,714	60,966,593
Cost of goods sold and cost of shipments to agents, and selling, general and administrative expenses, exclusive of depreciation and amortization	56,923,432	59,353,887
	1,817,282	1,612,706
Depreciation and amortization	657,525	707,830
	1,159,757	904,876
Other income:		
Profit on disposition of fixed assets and leases	8,580	112,510
Miscellaneous	126,166	73,817
	134,746	186,327
	1,294,503	1,091,203
Other deductions:		
Interest on long-term debt	29,677	57,896
Miscellaneous	50,295	89,034
	79,972	146,930
Net income before Federal taxes on income	1,214,531	944,273
Provision for Federal taxes on income	674,000	455,000
Net income	540,531	489,273
Earned Surplus as at beginning of year	6,046,909	5,941,838
	6,587,440	6,431,111
Dividends on Convertible Preferred Stock	50,965	71,286
Dividend on Common Stock	—	312,916
	50,965	384,202
Earned Surplus as at end of year	$ 6,536,475	$ 6,046,909

This statement is subject to the accompanying Notes to Financial Statements, which are made an integral part hereof.

NOTES TO FINANCIAL STATEMENTS

United Cigar-Whelan Stores Corporation and Subsidiary Companies

★ AS AT DECEMBER 31, 1955

GENERAL:

Reference is made to the previously issued annual report for the notes applicable to the consolidated financial statements as at December 31, 1954 and for the year then ended.

NOTE A—Merchandise Shipments to Agents:

In accordance with the Corporation's established policy, net sales and shipments to agents, as shown in the accompanying consolidated statement of income and earned surplus, include amounts representing merchandise shipments to agents who operate retail outlets, ownership of which merchandise, under the terms of the agency agreements, remains with the Corporation until the merchandise is sold by the agents. Amounts owing by agents for merchandise sold as at December 31, 1955 and the accountability of agents as at that date for unsold shipments of merchandise (other than initial inventory allowances) together total $900,011. Of this amount, $898,779 is included in the accompanying consolidated balance sheet under Current Assets in "Accounts and notes receivable, and merchandise shipments to agents, less reserves," and $1,232 is included under Other Assets. The initial inventory allowances, for which agents are not required to make settlement until the termination of the agency, are included under Other Assets.

NOTE B—Taxes:

The accompanying financial statements are subject to final determination of Federal, state and local taxes. In connection therewith the Treasury Department, in its pending review of the Federal income tax return for 1951, has requested supplemental information in support of certain deductions.

NOTE C—Capital Stock and Surplus:

The Convertible Preferred Stock is redeemable at the option of the Corporation, in whole or in part, upon 30 days' notice, at $102.50 per share during 1956 and 50¢ less per share during each of the succeeding years through 1960, and thereafter at $100 per share plus, in each year, accrued dividends to the date of redemption. In the event of liquidation, the holders are entitled to the current redemption price. Each share of Convertible Preferred Stock may be exchanged for four shares of Common Stock.

The provisions of a loan agreement in effect at December 31, 1955 imposed restrictions which, among other matters, affected the payment of dividends on Common Stock. No loans were obtained under the agreement and it was subsequently terminated.

During the year 1955 the Corporation retired 2,160 shares of its Convertible Preferred Stock, of which 1,200 shares were purchased during the year. This resulted in an increase of $52,680 in Capital Surplus, representing the excess of the par value of the shares so retired over the cost thereof.

Treasury stock consists of 263,959 shares of the Corporation's Common Stock, of which 42,831 shares were acquired during the year.

NOTE D—Long-term Leases and Other Contingencies:

The Corporation and its subsidiaries in the ordinary course of business lease all store properties. At December 31, 1955 there were 153 leases expiring more than three years after that date for which the minimum annual rental was approximately $1,950,000. The majority of these leases provide for additional rental based upon percentages of sales in excess of predetermined bases and upon other factors.

The Corporation is contingently liable with respect to the guarantee of another's obligation approximating $162,000.

Based upon the opinions of counsel, management believes that pending litigation against the Corporation and a subsidiary will not result in a materially adverse effect on the consolidated financial position.

ACCOUNTANTS' REPORT

S. D. LEIDESDORF & CO.
Certified Public Accountants
125 Park Avenue
New York, N. Y.

To the Board of Directors

UNITED CIGAR-WHELAN STORES CORPORATION
New York, N. Y.

We have examined the consolidated balance sheet of United Cigar-Whelan Stores Corporation and subsidiary companies as at December 31, 1955 and the related consolidated statement of income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statement of income and earned surplus, together with the notes to financial statements, present fairly the consolidated financial position of United Cigar-Whelan Stores Corporation and subsidiary companies at December 31, 1955, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

S. D. LEIDESDORF & CO.

New York, N. Y.
March 15, 1956

Executive Offices

82 Thirty-Ninth Street — Brooklyn 32, N. Y.

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Branch Offices and Warehouses

82 39th Street, Bush Terminal Bldg. No. 22, Brooklyn 32, N. Y.

5000 District Boulevard	Los Angeles 11, Calif.
239-243 N. W. 28th Street	Miami 37, Fla.
725 South Wells Street	Chicago, Ill.

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"GET IT AT Whelan's"